



Partnering for California Energy: Investor Owned Utilities and Municipal Finance

Presentation by:
California Consumer Power and Conservation Financing
Authority

Presentation to:



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Financing Team



- The California Consumer Power and Conservation Financing Authority has existing relationships with an experienced team of nationally recognized legal and financial experts.

Underwriting Pool

Bear Stearns, Banc of America, EJ De La Rosa, Merrill Lynch, JP Morgan, Morgan Stanley, Goldman Sachs, Citigroup, Lehman, Seibert Brandford Shank, UBS

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Overview of California Consumer Power and Conservation Financing Authority (CPA)



- The CPA is authorized by California statute to finance electricity generating facilities and conservation programs through 2006 in order to assist future power needs of Californians.
- Goals:
 - Work together with generating entities including California's three investor owned utilities to provide reliable and affordable power to citizens and businesses.
 - Determine reasonable reserve requirements for California power supply.
 - Ensure sufficient electricity to meet future demand.
 - Improve stability in California electricity markets.
 - Encourage energy efficiency, conservation and renewable resource investments.
 - Invest in near-term generating capacity to support California's economic future, including new peaking plants.
- CPA Revenue Bonds Initial \$28 Million Issuance April 2003.

Peaker Objectives



- CPA proposes to finance selected peaker plants for utility consideration.
- Natural-gas fired units aggregating up to 300 MW.
- Private developer bids submitted to CPA during 2003 and selected by CPA to meet reliability needs.
- Investor owned utilities to review bids for selection specific plants for negotiation and implementation pursuant to CPUC proceeding directive.
- CPA to enter into agreements with private contractors for development of plants selected by investor owned utilities.
- CPA to provide permanent financing to purchase plants from developers upon completion on turnkey basis.

Peaker Objectives, Continued



- CPA to finance purchases of completed peakers with proceeds of long-term bonds issued in municipal market.
- Bonds to be secured primarily by unconditional take-or-pay agreements between investor owned utilities and CPA extending through final bond maturity.
- Option to purchase peaker plants by investor owned utilities.



U.S. Municipal Bond Market

Overview of Municipal Bond Market



- CPA's participation in the projects allows CPA to access the strengths of the Municipal Bond Market to finance the peaking units.
- The municipal bond market is a mature market with a long history and substantial investor demand.
 - Significant growth in municipal bond issuance volumes over the past two years.
- Municipal bond issuers enjoy many advantages:
 - Strong credit ratings, predominately investment grade.
 - Market access and liquidity.
 - Low interest rates on a current and historical basis.
 - Very low default rates.
- Flexibility in structure:
 - Amortizing debt
 - Revenue pledge
 - Tax-exempt or taxable
 - Fixed rate or variable rate
 - Credit enhancement

Power Generation Financing



➤ MUNICIPAL MARKET SECTOR:

- Established, Substantial, Expanding
- Robust Ongoing Investor Demand
- Access for Power Projects
- Attractive Interest Rates
- Long-term Borrowings for Project Life
- Active Generation Financing U.S. and California

➤ CORPORATE MERCHANT SECTOR:

- Financial Stress for Several Years
- Limited Market Access
- High Borrowing Costs
- Sub-Investment Grade Ratings
- Continuing Investor Wariness
- No Recent Merchant Plants Financed U.S. or California

Municipal Market (2000-2004 YTD)



- Over \$1.2 trillion of new bonds have been issued over the past four years.
 - Electric power financings have totaled \$60.0 billion during this period.

Overview of Municipal Market (Jan 2000 – 2004)						
	Tax-Exempt		Taxable		Total	
Industry	Par (MM)	Market Share (%)	Par (MM)	Market Share (%)	Par (MM)	Market Share (%)
General Purpose	\$302,266.10	30.8	\$29,602.80	33.5	\$331,868.90	26.8
Education	274,261.20	35.7	30,210.90	34.2	304,472.10	24.6
Transportation	141,019.30	38.3	3,413.80	3.9	144,433.10	11.7
Utilities	111,744.70	12.2	2,069.90	2.3	113,814.60	9.2
Healthcare	94,596.70	9.6	1,861.80	2.1	96,458.50	7.8
Housing	76,698.40	46.9	11,533.50	13.1	88,231.90	7.1
Electric Power	55,912.40	6.3	4,008.70	4.5	59,921.10	4.8
Public Facilities	46,757.80	4.7	2,157.40	2.4	48,915.20	3.9
Development	23,567.20	6.1	2,781.90	3.2	26,349.10	2.1
Environmental Facilities	23,532.30	9.6	771.8	0.9	24,304.10	2
Total ¹	\$1,150,356.10		\$88,412.50		\$1,238,768.60	

¹ Tax exempt total reflects AMT

Municipal Bond Issuance (2003)



- In 2003, \$380 billion of municipal bonds were issued.
 - Electric power financings totaled \$16.6 billion during this period.

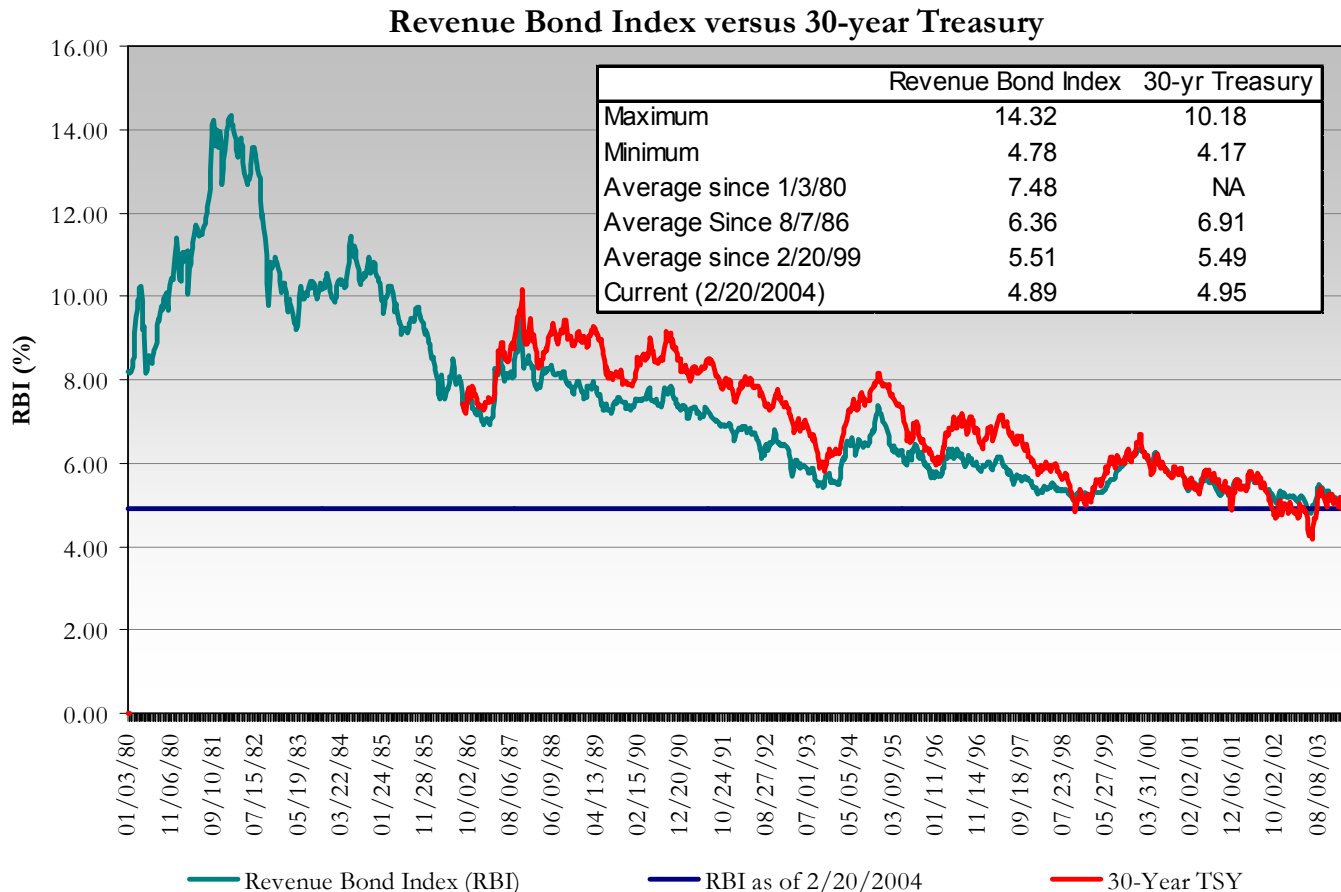
Overview of Municipal Market 2003						
	Tax-Exempt		Taxable		Total	
Industry	Par (MM)	Market Share (%)	Par (MM)	Market Share (%)	Par (MM)	Market Share (%)
General Purpose	\$97,995.40	30.8	\$21,323.70	53.1	\$119,319.10	31.5
Education	80,167.80	24.6	9,136.30	22.8	89,304.10	23.6
Transportation	38,654.00	10.1	1,593.90	4	40,247.90	10.6
Utilities	34,390.00	10.7	1,152.90	2.9	35,542.90	9.4
Healthcare	27,897.10	8.8	531.70	1.3	28,428.80	7.5
Housing	21,693.40	3.6	3,440.10	8.6	25,133.50	6.6
Electric Power	16,085.20	5	510.30	1.3	16,595.50	4.4
Public Facilities	12,025.00	3.8	1,044.20	2.6	13,069.20	3.5
Development	5,208.80	1.4	1,185.30	3	6,394.10	1.7
Environmental Facilities	5,035.90	1.2	209.9	0.5	5,245.80	1.4
Total ¹	\$339,152.60		\$40,128.30		\$379,280.90	

¹ Tax exempt total reflects AMT

Long-Term Trends in Municipal and Treasury Interest Rates



- Long-term tax-exempt rates have averaged 5.51% over the past five years.
- Long-term taxable rates have averaged 5.49% over the past five years.



Revenue Bond Index: A compilation of 25 select municipal Revenue Bonds maturing in 30 years. Ratings on these bonds range from Baa1 to AA+.

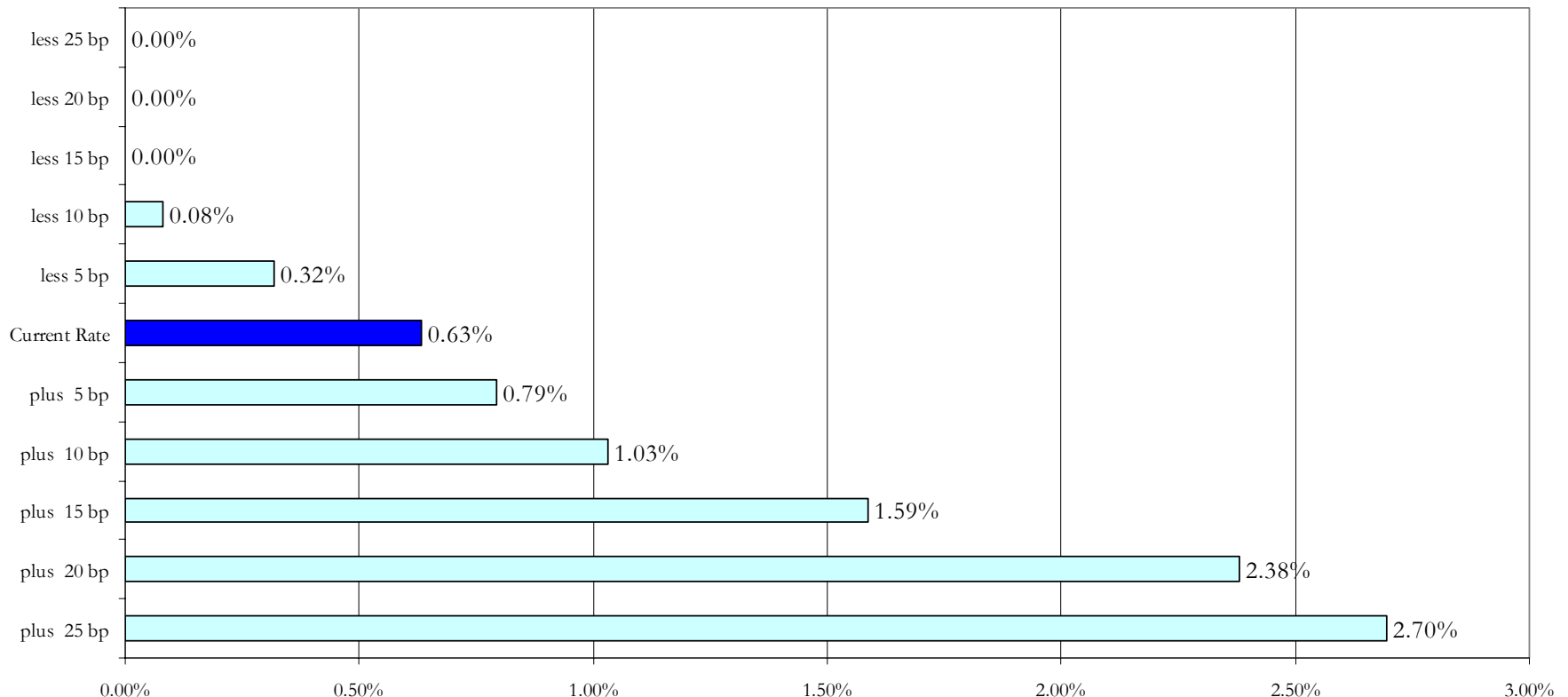
30-Year Treasury Index: Yield on the 30-Year Treasury Bond at closing on Thursday each week.

Current Tax-Exempt Interest Rates



- Current long term tax-exempt rates are at historical lows.

Percentage of Time RBI has been lower than Current Levels

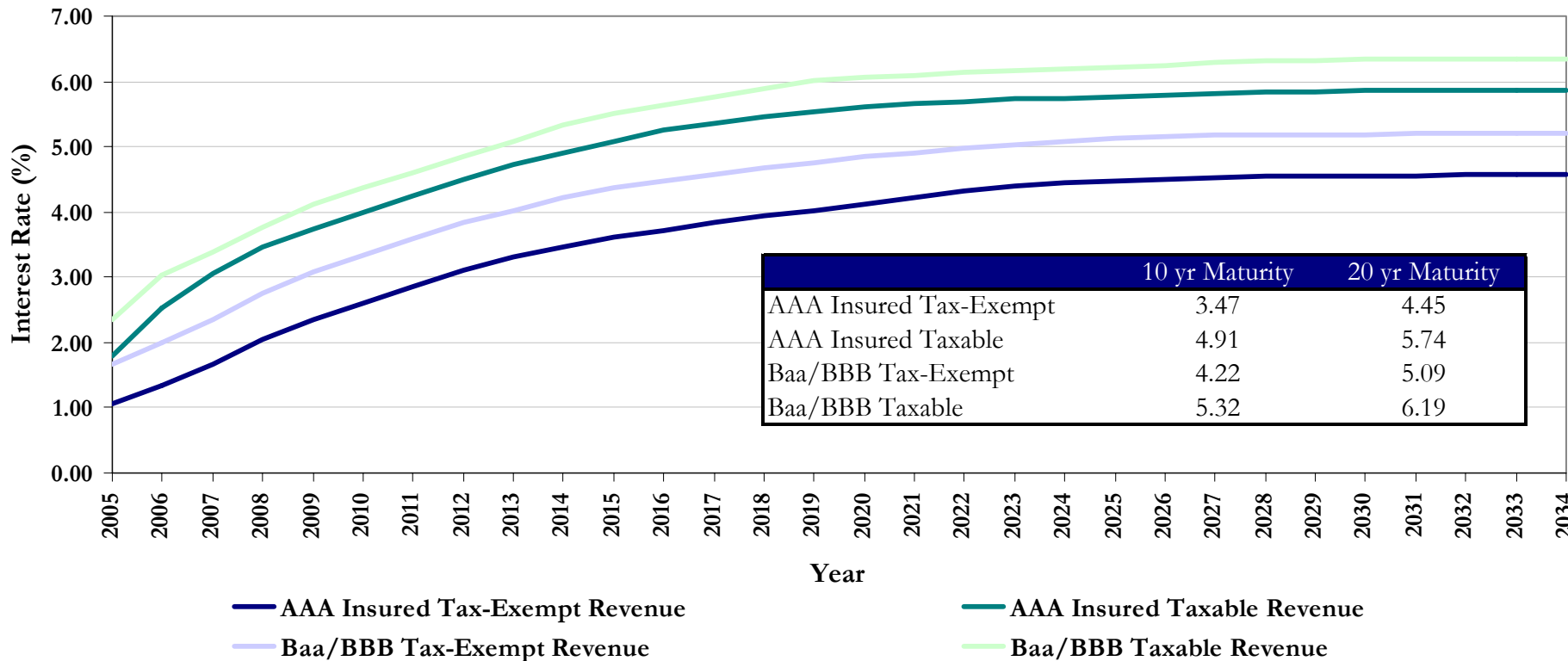


Current Municipal Interest Rates



- 20-year BBB-rated taxable bond yields are currently below 6.25%.

**Current Municipal Interest Rates
as of February 25, 2004**





Municipal Market Power Financing Sector

Strengths of Municipal Market Power Financing Sector



- High credit quality evidenced by ratings predominately in the “AA” and “A” categories.
- Continued access to the capital markets.
- Strong investor demand for debt issued over the past few years, despite overall volatility in the energy industry.

Credit Rating Agency Scales			
Moody's	S&P	Fitch	
Aaa	AAA	AAA	Highest Credit Quality
Aa1	AA+	AA+	Very High Credit Quality
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	High Credit Quality
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Good Credit Quality
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly Speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC+	High Default Risk
Caa2	CCC	CCC	
Caa3	CCC-	CCC-	
Ca	CC	CC	
C	C	C	
D	D	DDD	
		DD	Default
		D	

Credit Rating Agency Industry Praise



It is clear that one cannot paint with a broad brush regarding electric utility credit in the US. Despite the credit deterioration in the electric industry, particularly among power marketers and merchant generation companies, public power electric utility credit has remained stable.

Moody's Investors Service
June 2003

Standard & Poor's anticipates continued rating stability [for municipal power], despite a heightened operating risk in the overall industry.

Standard & Poor's
May 2003

National Municipal Market Power Financings



- Municipal market power issuers have enjoyed a strong market demand for their debt issues over the last four years. The top municipal market power issuers have financed over \$22.8 billion since January 2000.

Top Municipal Market Power Issuers ¹ (Jan 2000 - 2004 YTD)		
<i>Issuer</i>	<i>Total Volume (in MM)</i>	<i># of Transactions</i>
Los Angeles Dept of Water & Power	4,874.50	21
Jacksonville Electric Authority	3,186.40	31
Long Island Power Authority	2,774.20	17
Energy Northwest	2,619.70	13
Puerto Rico Electric Power Authority	2,454.90	7
Salt River Project	2,172.30	6
New York Power Authority	1,797.20	15
Sacramento Municipal Utility District	1,576.00	12
Memphis Light Gas & Water	1,433.80	5
Total	\$22,889.00	127
Industry Total	\$59,921.10	846

(1) Exclusive of California Department of Water Resources
October 2002 Issues

California Municipal Market Power Financings



- California municipal market power issuers have financed over \$3.2 billion in 2003. Issuance was driven by the construction of new generation and refunding opportunities presented by the low interest rate environment.

California Power Issuers 2003		
<i>Issuer</i>	<i>Total Volume (in MM)</i>	<i># of Transactions</i>
Los Angeles Department of Water and Power	1,155.940	3
Sacramento Municipal Utility District	924.350	3
Southern California Public Power Authority	365.830	2
Transmission Agency of Northern California	236.100	1
City of Vernon	162.610	1
City of Santa Clara	150.000	2
Anaheim Public Utilities	60.420	1
Northern California Power Agency	55.040	1
MSR Public Power Agency	54.440	1
Glendale Water and Power	31.640	1
Turlock Irrigation District	30.240	1
California Consumer Power and Conservation Financing Authority	28.010	1
Total	\$3,254.320	18



Proposed CPA Peaker Financing

Municipal Bond Market

Security and Credit Factors



- Minimum investment-grade ratings for CPA issued power revenue bonds (e.g., Standard and Poor's "BBB") to provide permanent financing for peaker plants.
- Secure revenue streams for life of bonds.
- All-in costs of debt service, operation and fuel supply.
- Creditworthy counter-party power purchasers.
- Compelling peaker project economics.
- Debt service reserve accounts funded out of bond proceeds.
- Debt service coverage requirements recovered over life of bonds.
- Experienced project developers and operators.
- Operating agreements to include performance targets.
- Fuel supply plans in place at time of bond financings.

Financing Overview



- CPA and investor owned utilities to work closely together to select specific peaking projects to be built and to structure construction and operating contracts.
- CPA to finance and own the peaking units upon their completion/certification.
- Contractors subject to standard warranties and liquidated damage provisions.
- Contractors responsible for financing development and construction.
- Operating agreements with qualified experienced entity.
- Take-or-pay contracts between CPA and investor owned utilities, who will be off-taker of peaker power, extending to final maturity date of CPA bonds.
- Investor owned utilities to negotiate purchase rights with CPA if desired.

Financing Advantages



- CPA access to strong municipal bond market and robust municipal market power sector.
- 100% project cost to be debt financed by CPA bonds with final maturities up to useful life of projects.
- CPA bonds to be secured by contractual revenue pledges of investor owned utilities as power purchasers under unconditional take-or-pay contracts.
- Amortizing debt to be repaid in full by final maturity date.
- No equity required of investor owned utilities.
- No permitting/construction risks for investor owned utilities.
- Turnkey purchases of peakers by CPA from project developers.
- Option of investor owned utilities to purchase plants upon commercial operation or upon bond maturities to be negotiated.



Conclusion

Summary



- CPA, in partnership with California's largest investor owned utilities, will construct peaking units to position the state to meet the needs of a growing economy.
- Investor owned utilities will have sufficient energy during peak hours to meet California's load requirements.
- Ratepayers will receive greater price stability and reliability.

